

RECORD VERSION

STATEMENT BY

GENERAL JOHN A. WICKHAM, JR.

CHIEF OF STAFF

U.S. ARMY

BEFORE THE

SUBCOMMITTEE ON PERSONNEL AND COMPENSATION

COMMITTEE ON ARMED SERVICES

HOUSE OF REPRESENTATIVES

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STATEMENT TO THE
PERSONNEL AND COMPENSATION SUBCOMMITTEE
OF THE HOUSE ARMED SERVICES COMMITTEE
BY GENERAL JOHN A. WICKHAM, JR.
CHIEF OF STAFF, UNITED STATES ARMY
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MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. ALTHOUGH THE MILITARY RETIREMENT SYSTEM HAS BEEN STUDIED TEN TIMES OVER THE PAST 35 YEARS AND IT HAS BEEN A TOPIC OF PUBLIC DEBATE IN RECENT YEARS, THE ARMY APPRECIATES THIS OPPORTUNITY TO PRESENT ITS PERSPECTIVE AND INSIGHTS. I WILL CONFINE MY REMARKS TO THE NONDISABILITY SUBSYSTEM.

AT THE OUTSET, IT IS IMPORTANT TO NOTE THAT THE CONGRESS IN 1973 MANDATED AN ARMED FORCES MANNED WITH VOLUNTEERS. THE IMPORTANT SECURITY MISSIONS ENTRUSTED TO OUR SERVICE PEOPLE AND THE FIRST RATE EQUIPMENT BEING PUT IN THEIR HANDS REQUIRE A FORCE OF HIGH QUALITY VOLUNTEERS. GIVEN THE RISKS AND DEMANDS OF MILITARY LIFE, VOLUNTARY SERVICE BY QUALITY PEOPLE CAN BE ACHIEVED ONLY WITH ADEQUATE TOTAL COMPENSATION. THE RETIREMENT BENEFIT TRADITIONALLY HAS BEEN VIEWED AS A FORM OF DEFERRED COMPENSATION. THE VALUE OF THE MILITARY RETIREMENT SYSTEM ALREADY HAS BEEN REDUCED SIGNIFICANTLY OVER THE PAST SEVERAL YEARS. THEREFORE, TO THE EXTENT THAT FURTHER MAJOR CHANGES ARE MADE IN THE RETIREMENT BENEFITS, THE ARMED SERVICES, PARTICULARLY THE ARMY, WHICH CONTINUES TO REQUIRE SPECIAL INCENTIVES TO ASSURE QUALITY ENLISTMENTS, INEVITABLY WILL FIND IT DIFFICULT TO MAINTAIN THE CURRENT QUALITY IN ENLISTMENT AND REENLISTMENT, THEREBY JEOPARDIZING THE VOLUNTEER SYSTEM.

THE RETIREMENT SYSTEM IS A FUNDAMENTAL COMPONENT OF TOTAL COMPENSATION. AS SUCH, IT REPRESENTS PAYMENT FOR SERVICES PROVIDED AND SERVES AS AN IMPORTANT FORCE MANAGEMENT TOOL BY SHAPING PERSONNEL BEHAVIOR. IN THAT CAPACITY, IT SUPPORTS NATIONAL SECURITY BY ENSURING THAT THE ARMY'S MANPOWER OBJECTIVES ARE ATTAINABLE. THE CURRENT SYSTEM ACCOMPLISHES THIS GOAL IN THREE WAYS: BY MAINTAINING YOUNG, VIGOROUS AND MISSION-READY FORCES BY AFFECTING THE FORCE PROFILE; BY MAKING THE CHOICE OF A MILITARY CAREER A REASONABLY COMPETITIVE ALTERNATIVE; AND BY SUPPORTING MOBILIZATION. HENCE, ANY ALTERNATIVE THAT MIGHT BE CONSIDERED MUST BE EVALUATED IN TERMS OF ITS ABILITY TO ATTRACT AND RETAIN QUALITY PERSONNEL. THE BENEFITS OF POTENTIAL SAVINGS FORECAST BY VARIOUS ALTERNATIVES MUST BE WEIGHED AGAINST THE RISK THAT READINESS WILL BE DIMINISHED THROUGH THE LOSS OF EXPERIENCED PERSONNEL AND THE RELUCTANCE OF FIRST TERMERS TO BECOME CAREER SOLDIERS RESULTING FROM A CHANGE IN THIS FUNDAMENTAL ELEMENT OF THEIR COMPENSATION PACKAGE.

TO ILLUSTRATE THE POINT ABOUT HOW RETIREMENT BENEFITS HELP SHAPE DECISIONS ABOUT REENLISTMENT, CONSIDER THAT FOR A FIRST TERM SOLDIER IN HIS THIRD YEAR OF SERVICE, THESE BENEFITS ACCOUNT FOR 33 PERCENT OF THE PRESENT VALUE OF HIS LIFETIME EARNINGS, WERE THE SOLDIER TO CHOOSE A MILITARY CAREER. AT TEN YEARS OF SERVICE, THIS PERCENTAGE RISES TO 37 PERCENT. THUS, IT IS NOT SURPRISING THAT 13 PERCENT OF FIRST TERMERS AND MORE THAN 32 PERCENT OF CAREERISTS LIST THE RETIREMENT SYSTEM AS THE

SINGLE MOST IMPORTANT FACTOR IN THEIR REENLISTMENT DECISIONS.
THIS MAKES RETIREMENT THE MOST IMPORTANT REENLISTMENT FACTOR
AMONG CAREERISTS AND THE THIRD MOST IMPORTANT FACTOR AMONG
FIRST TERMERS. THEREFORE, IT FOLLOWS THAT REENLISTMENT
DECISIONS WILL BE AFFECTED BY A CHANGE IN THE SYSTEM;
ESPECIALLY A CHANGE THAT SIGNIFICANTLY REDUCES THE VALUE OF
FUTURE BENEFITS.

AS I TRAVEL AROUND THE ARMY AND TALK WITH OUR SOLDIERS,
LEADERS, AND FAMILY MEMBERS, THE RETIREMENT ISSUE IS THE ONE
MOST FREQUENTLY RAISED. THERE IS DEEP CONCERN IN THE ARMY OVER
TALK OF POTENTIAL CHANGES IN RETIREMENT. THIS CONCERN VOICES
DESPAIR OVER "BREAKING FAITH" OR RENEGING ON PROMISES MADE
ABOUT THE TOTAL COMPENSATION PACKAGE, AND APPREHENSION ABOUT
THE ARMY'S ABILITY TO ATTRACT AS WELL AS RETAIN QUALITY
VOLUNTEER SOLDIERS. INCIDENTALLY, "GRANDFATHERING" THE CURRENT
FORCE IS NO SOLUTION, IN MY OPINION. SUCH AN ACTION WOULD
YIELD NO NEAR-TERM SAVINGS. MOREOVER, IT WOULD PRODUCE, FOR
MANY YEARS TO COME, TWO CLASSES OF SOLDIERS IN THE ARMY, THOSE
WITH THE CURRENT RETIREMENT SYSTEM AND THOSE WITH AN INFERIOR
ONE. WE CAN HARDLY EXPECT THE MORE SENIOR SOLDIERS, ALTHOUGH
GRANDFATHERED, TO CITE CONTINUITY OF RETIREMENT BENEFITS AS A
MAJOR FACTOR IN URGING YOUNGER, HIGH QUALITY SOLDIERS TO MAKE A
CAREER OF THE ARMY. HAVING SEEN A "BREACH OF FAITH" ON THE
RETIREMENT SYSTEM, THESE SOLDIERS ARE LIKELY TO "VOTE WITH
THEIR FEET" BECAUSE THEY MAY SENSE THAT NO BENEFITS ARE SECURE.

IT IS IMPORTANT TO RECOGNIZE HERE THAT BEHAVIOR NEED ONLY BE AFFECTED MODESTLY FOR THE ARMY TO SUFFER SERIOUS DAMAGE. FOR EXAMPLE, IF CONTINUATION RATES AMONG ARMY CAREERISTS FELL ONLY 3 PERCENT, WE PREDICT THAT THE ARMY WOULD LOSE 35,000 CAREER NCO'S, AND ITS ANNUAL ACCESSION REQUIREMENTS WOULD INCREASE FROM 145,000 TO 180,000 AT A TIME WHEN THE PRIME RECRUITING MARKET IS SHRINKING. WE ESTIMATE THAT EVEN IF WE LOWERED OUR ENLISTMENT STANDARDS TO THE CONGRESSIONAL FLOOR OF NO MORE THAN 20 PERCENT AFQT CATEGORY IV, ARMY RECRUITING COSTS WOULD RISE BY AT LEAST \$72 MILLION DOLLARS. TO MAINTAIN THE ARMY'S GOAL THAT BETWEEN 59 AND 63 PERCENT OF ITS ACCESSIONS BE IN AFQT CATEGORY I-IIIA WOULD REQUIRE AN ADDITIONAL \$1.1 BILLION DOLLARS IN RECRUITING RESOURCES.

IF THE MERITS OF A PROPOSED CHANGE TO THE RETIREMENT SYSTEM ARE TO BE ANALYZED IN TERMS OF ITS IMPACT ON THE FORCE THEN THAT IMPACT MUST BE PROJECTED. UNFORTUNATELY, THE RELIABILITY OF PROJECTIONS IS SERIOUSLY AFFECTED BY THE FACT THAT NO HISTORICAL DATA EXISTS ON WHICH THEY MAY BE BASED. INSTEAD OF INFORMATION ON HOW SOLDIERS RESPONDED TO PAST CHANGES IN THEIR RETIREMENT SYSTEM, EXTRAPOLATIONS MUST BE BASED ON THEIR SENSITIVITY TO BONUSES AND PAY CAPS. THE PROBLEM HERE IS THAT A BONUS CHANGE OR PAY CAP AMOUNTS TO LESS THAN A 1 PERCENT CHANGE IN LIFETIME EARNINGS. THAT AMOUNT IS INSIGNIFICANT IN COMPARISON TO THE EFFECT OF A SUBSTANTIAL REDUCTION IN THE VALUE OF MILITARY RETIREMENT. THESE PROBLEMS ARE ESPECIALLY SERIOUS IN LIGHT OF THE DRAMATIC EFFECT THAT SMALL CHANGES IN

THE CONTINUATION RATES HAVE ON THE FORCE PROFILE. THUS, WHILE PROJECTIONS ARE NECESSARY FOR MEANINGFUL DISCUSSION OF THESE ISSUES, WE MUST RECOGNIZE THE GENERAL UNCERTAINTY SURROUNDING SUCH FORECASTS AND THE HIGH COST OF BEING WRONG BY ONLY A SMALL AMOUNT.

THE ARMY DOES NOT SUPPORT THE ADOPTION OF ANY OF THE ALTERNATIVES PROPOSED BY THE 5TH QPMC BECAUSE OF THE UNCERTAINTY REGARDING THEIR ULTIMATE EFFECT ON THE CAREER FORCE AND THE SHRINKING PRIME RECRUITING MARKET. WHILE THE 5TH QPMC'S ANALYSIS PREDICTED THAT THEIR PROPOSALS WOULD HAVE LITTLE EFFECT ON RETENTION, SENSITIVITY ANALYSIS CONDUCTED BY THE ARMY SHOWED THAT MODEST CHANGES IN SEVERAL OF THEIR ASSUMPTIONS WOULD RESULT IN THE PREDICTION OF MUCH GREATER LOSSES TO THE CAREER FORCE. ALSO, BECAUSE THEY WOULD NOT HAVE RESULTED IN NEAR TERM REDUCTIONS IN OUTLAYS, ADOPTION OF ANY OF THEIR PROPOSALS WOULD NOT CONTRIBUTE TO DEFICIT REDUCTION DURING THIS DECADE. THEREFORE, THE ARMY CONSIDERED THE RISKS TO BE UNACCEPTABLY LARGE AT A TIME OF TIGHTENING RECRUITING MARKETS AND DETERIORATING PAY COMPARABILITY.

A RELATED ISSUE DEALS WITH THE 20-YEAR RETIREMENT OPTION. CRITICS ARGUE THAT THIS OPTION IS OVERLY GENEROUS AND LEADS TO LOSS OF EXPERIENCED PERSONNEL. IN FACT, THE AVERAGE NCO LEAVES THE SERVICE WITH ABOUT 23 YEARS OF SERVICE AND ROUGHLY \$10,000 IN RETIREMENT PAY, WHICH FOR A FAMILY OF FOUR IS AT THE POVERTY LEVEL. READINESS OF THE ARMY, PARTICULARLY THE COMBATANT AND

FIELD SUPPORT FORCES, DEPENDS ON HIGH QUALITY SOLDIERS AND VIGOROUS, STRONG LEADERSHIP AT ALL LEVELS. AN ATTRACTIVE 20-YEAR RETIREMENT OPTION IS ABSOLUTELY ESSENTIAL TO MAINTAINING ARMY READINESS BECAUSE SUCH AN OPTION PERMITS THE LEADERSHIP TO REMAIN RELATIVELY YOUTHFUL, AND ALLOWS FOR SEPARATION OF LEADERS NOT SELECTED FOR PROMOTION OR WHO HAVE TIRED OF TOO MUCH FAMILY SEPARATION AND ARDUOUS SERVICE. THE CONGRESS RECOGNIZED THE QUALITY OF LEADERSHIP ISSUE IN PASSAGE OF DOPMA WHICH REQUIRES SEPARATION AT VARIOUS POINTS IN SERVICE OF OFFICERS TWICE PASSED OVER FOR PROMOTION. THEREFORE, ANY CHANGES WHICH WOULD MAKE THE 20-YEAR OPTION LESS ATTRACTIVE COULD SERIOUSLY AFFECT THE QUALITY OF THE FORCE AND READINESS.

TURNING TO THE ISSUE OF THE GENEROSITY OF MILITARY RETIREMENT, LET ME REITERATE THE POINTS MADE BY ASSISTANT SECRETARY KORB IN HIS RECENT TESTIMONY BEFORE THE SENATE ARMED SERVICES COMMITTEE. WHEN PROPERLY COMPARED, MILITARY RETIREMENT IS BETWEEN 1.2 AND 1.5 TIMES MORE GENEROUS THAN THE AVERAGE PRIVATE RETIREMENT SYSTEM. IT SIMPLY IS NOT SIX TIMES MORE GENEROUS AS HAS BEEN ASSERTED BY THE GRACE COMMISSION. FURTHERMORE, EVEN IF OTHER ELEMENTS OF THE COMPENSATION PACKAGE WERE COMPARABLE TO THEIR CIVILIAN COUNTERPARTS, IT IS NOT UNREASONABLE NOR UNEXPECTED THAT RETIREMENT BE SOMEWHAT MORE GENEROUS TO INDUCE INDIVIDUALS TO ACCEPT THE HARDSHIPS AND HAZARDS EXPERIENCED DURING A MILITARY CAREER. SOLDIERS ACCEPT AN UNLIMITED LIABILITY CONTRACT WHEN THEY ENTER THE SERVICE.

FREQUENT FAMILY SEPARATION, REPETITIVE OVERSEAS DUTY OFTEN IN DANGEROUS LOCATIONS MUCH AS THE DMZ IN KOREA OR ALONG THE BORDER IN GERMANY, AND HAZARDS SUCH AS THAT TRAGICALLY SUFFERED BY MAJOR ARTHUR NICHOLSON IN EAST GERMANY, CALL FOR FAIRNESS WITH THE TOTAL MILITARY COMPENSATION PACKAGE.

IT IS ALSO IMPORTANT TO RECOGNIZE THAT THE MILITARY RETIREMENT SYSTEM IS ESSENTIALLY A MATURE SYSTEM. WHILE THERE HAS BEEN SUBSTANTIAL GROWTH IN COSTS IN RECENT YEARS, 55 PERCENT OF THAT INCREASE HAS BEEN DUE TO INFLATION. OF THE REMAINDER, 19 PERCENT HAS BEEN CAUSED BY AN INCREASE IN THE NUMBER OF RETIREES, 21 PERCENT HAS BEEN CAUSED BY INCREASES IN BASIC PAY AND 5 PERCENT RESULTED FROM ADJUSTMENTS TO RETIRED PAY. BECAUSE THE NUMBER OF RETIREES HAS LARGELY STABILIZED, FUTURE REAL GROWTH WILL AMOUNT TO ABOUT 1 PERCENT OF THE DOD BUDGET AND SHOULD COMPRISE A SHRINKING PERCENTAGE OF GNP.

THE COST OF THE CURRENT SYSTEM REFLECTS THE CUMULATIVE EFFECT OF PAST DECISIONS TO MAINTAIN A STANDING ARMED FORCE FOLLOWING WORLD WAR II AND KOREA. UNLESS WE ARE WILLING TO BREAK OUR COMMITMENTS TO CURRENT RETIREES BY REDUCING THE VALUE OF THEIR BENEFITS, THERE IS NO WAY TO REDUCE SIGNIFICANTLY NEAR-TERM RETIREMENT COSTS. LIKE THE OTHER ITEMS IN THE ARMY BUDGET, MILITARY RETIREMENT IS A COST OF NATIONAL DEFENSE. WITH NATIONAL SECURITY, LIKE ANYTHING ELSE IN LIFE, YOU GET WHAT YOU PAY FOR! IN MY VIEW, THERE IS NO WAY TO BUY ADEQUATE NATIONAL SECURITY "ON THE CHEAP" IN EQUIPMENT OR IN PEOPLE PROGRAMS

IN SUMMARY, LET ME REPEAT SEVERAL POINTS: IT IS NOT POSSIBLE TO AFFECT NEAR-TERM DEFICITS THROUGH THE REALIZATION OF SIGNIFICANT IMMEDIATE SAVINGS IN RETIREMENT COSTS; THE RETIREMENT SYSTEM WILL NOT EXPERIENCE RAPID FUTURE GROWTH; SERIOUS PERSONNEL LOSSES CAN OCCUR FROM RELATIVELY SMALL CHANGES IN CONTINUATION RATES; SUCH LOSSES OF EXPERIENCED PERSONNEL INEVITABLY WILL HURT READINESS AND COULD JEOPARDIZE THE VOLUNTEER BASIS FOR MANNING THE ARMY. THEREFORE, I AM OPPOSED TO CHANGES IN THE CURRENT RETIREMENT SYSTEM WHICH HAS SUCCESSFULLY SUPPORTED MANPOWER POLICIES FOR OVER 35 YEARS.